

Top Secret

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NATIONAL INTELLIGENCE DAILY CABLE
Saturday June 26, 1976 CI NIDC 76-150C

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NATIONAL SECURITY INFORMATION
 Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Saturday, June 26, 1976.

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The NID Cable is for the purpose of informing senior US officials.

LEBANON

Christian militiamen pressed their assault yesterday on Tall Zatar and Jisr al-Basha Palestinian refugee camps for the fourth consecutive day. Many of the camps' inhabitants reportedly have fled in the face of heavy artillery attacks and what has been described as the most intense hand-to-hand combat of the civil war.

//Tall Zatar is apparently now completely surrounded, and Fatah officials reportedly fear it will fall today or tomorrow. The smaller Jisr al-Basha camp may have already been partially overrun.//

The fall of the camps would be the Palestinians' first major defeat at the hands of the Christians and thus a major psychological blow; the Palestinians still control most of west Beirut, however, and despite a setback at Tall Zatar would not necessarily be more willing to engage in serious negotiations.

Palestinian and leftist forces in west Beirut stepped up retaliatory attacks yesterday against the large Christian residential district of Ashrafiyah and the smaller Ayn Rummanah neighborhood.

Although this action may temporarily slow the Christian assault on the camps, it threatens to draw the large Phalanges Party militia into the ground fighting. The Phalangists have given only indirect support to their fellow Christians, reportedly because they want to continue private reconciliation

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talks with the major Palestinian groups. They will not stand aside for long, however, in the face of attacks on their stronghold of Ashrafiyah.

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members of the Libyan contingent of the Arab League security force based at the Beirut airport were aiding Palestinian and leftist troops in launching diversionary attacks from Chiyah and the vicinity of Bain Militaire--the embarkation point for the US evacuation last weekend.

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Libya's suspicious activities and the explosive situation in Beirut will almost certainly preclude any further deployment of the Arab League peace-keeping force and may even upset what little progress has been made toward implementing Prime Minister Jallud's truce agreement.

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The first phase of the agreement, involving the exchange of prisoners and the withdrawal of Syrian troops from Beirut, is already well behind schedule. The Syrians show no signs of willingness to comply fully with the second phase, which calls for them to pull back farther from Beirut and Sidon.

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The Syrians also seem determined to continue their pursuit of various leftist and Palestinian groups based in northern and eastern Lebanon.

25X1 [] Syrian troops in the north reportedly are trying to force the Palestinians to retreat to several large refugee camps near Tripoli. In the east, Syrian forces reportedly moved heavy armor toward Balabakk yesterday to reinforce their blockade of that leftist stronghold. [] 25X1

25X1 POLAND

25X1 [] Polish Prime Minister Jaroszewicz announced yesterday the withdrawal of the large food price increases that the government had proposed Thursday. The regime caved in to the demands of striking workers, suggesting that public disturbances were in fact more widespread and serious than initial reporting had indicated.

25X1 [] //The Polish workers have thus again demonstrated their political strength; their success could go to their heads, making it even more difficult for the Gierek leadership to maintain order.//

25X1 [] //Indeed, the current situation in Warsaw seems ripe for further disturbances. The embassy reports that there is little meat available at any price, and not much food of other kinds. Lines at food stores are long and disorderly, and extra police are much in evidence.//

25X1 [] //Over the longer term, the regime's capitulation will have the effect of seriously undermining the credibility of the leadership. The rioting over food price increases and shortages of December 1970 toppled the Gomulka regime and brought Gierek to power.//

25X1 [] Warsaw's efforts to restore public confidence will almost certainly include personnel shifts as Gierek seeks to protect his position. He must also make a major effort to tighten social discipline without again sending the unruly Poles into the streets.

25X1 [] The prospects are for continuing food shortages, consumer dissatisfaction, and unacceptably high subsidies that affect other priority areas of the national economy. [] 25X1

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PORTUGAL

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[] Portuguese army chief Ramalho Eanes is the clear favorite in the presidential election scheduled for tomorrow. Should he fail to obtain a first ballot majority, he will be forced within three weeks into a runoff with the second place finisher.

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[] The vote would be called off if Prime Minister Azevedo, who suffered a severe heart attack Wednesday, should die before the polls close tomorrow evening. Latest medical reports, however, describe his condition as improving.

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[] The effect Azevedo's incapacitation will have on the voting is unclear, although it could lead to a reduced turnout. The campaign had been rather colorless until the final week when the Prime Minister stepped up his personal attacks on front-runner Eanes.

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[] General Eanes is favored to win a clear majority and avoid a runoff, but he could be hurt by a low voter turnout, which would tend to favor the two leftist candidates--former security chief Otelo de Carvalho and Communist central committee member Octavio Pato. Eanes expects to pick up some of Azevedo's support, but many of the Prime Minister's backers and lukewarm Eanes supporters may stay home in the belief that the army chief's victory is now assured.

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[] Prime Minister Azevedo was expected to wage the most effective campaign against Eanes, but his campaign failed to get off the ground and, barring a large sympathy vote, his illness is likely to remove him from the running.

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[] Carvalho, on the other hand, has emerged as something of a dark horse, often attracting enthusiastic crowds twice as large as those turning out for Eanes. Some public opinion polls reportedly have showed that Carvalho had overtaken Azevedo even before the latter's heart attack.

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[] Socialist leader Soares, whom Eanes says he will name prime minister, claims he will have a government selected and ready to take office as soon as he is officially designated. The new government may not take over until mid-July, however, and their program may not be through the legislature until late July or early August. []

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USSR-ANGOLA

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[REDACTED] Both sides have publicly hailed the visit. The Soviets clearly gave the Nascimento delegation red carpet treatment, with Brezhnev, Kosygin, Gromyko, Ustinov, and other senior officials participating in the talks--which were described as having been held in an atmosphere of "complete mutual understanding."//

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[REDACTED] The joint communique issued at the close of Nascimento's visit emphasized that a wide-ranging, comprehensive series of agreements in the economic, commercial, cultural, and diplomatic

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fields had been concluded, and that a declaration on the "fundamentals of friendly relations and cooperation" had been signed. The communique also noted that agreement had been reached on certain unspecified measures aimed at strengthening Angola's "defense capabilities."

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[redacted] The alleged Soviet reluctance to provide Neto with a large number of additional military and civilian advisers is consistent, however, with the Kremlin's desire to maintain a low visibility in Angola. It is also reasonable to assume that Moscow--given the continued sizable Cuban troop presence in Angola--perceives no major security threat to the Neto regime that would require a significant increase in the delivery of Soviet military equipment. [redacted]

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ITALY

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[] Italian political leaders, commenting on the results of this week's election, appear to be probing one another cautiously for signs of flexibility prior to the opening of negotiations on a new government. The process of sorting out party positions promises to be prolonged and difficult and may lead to the installation of a temporary caretaker government.

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[] The Socialists, whose support the Christian Democrats need to form a coalition without the Communists, are sticking to their campaign position that any new government must at least seek Communist support in parliament. Socialist Party leader De Martino made that point at a meeting of the party directorate this week and noted that he is waiting for "concrete proposals" from both the Christian Democrats and Communists.

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[] The Socialists' failure to pick up any support in the election has apparently created serious divisions in the party. According to one Socialist leader, the party may need several months to pull itself together. In his view, the Socialists are unlikely to reenter the government in the immediate future but would probably be willing to permit the formation of a Christian Democratic minority government if agreement can be reached on certain programs.

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[] A statement by the Communist directorate this week--the party's first official comment on the election--included no specific proposals and seemed intended to leave the initiative with the other parties.

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[] The Communists said only that their party was ready to assume responsibility "in accordance with its political weight." The Communists have been surfacing hints, however, that they would be willing to enter into a formal consultative relationship with a government in which they would hold no cabinet posts.

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[] At the same time, the Communists are saying that their increased strength in parliament entitles them to the presidency of either the chamber of deputies or the senate--influential posts held only by the governing parties in the past. The Socialists have reportedly agreed to support the Communists on this matter.

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[] The Christian Democrats have yet to make any official proposals, although various party leaders have made it clear that they will aim eventually for the revival of their alliance with the Socialists. The party directorate will meet next Wednesday, and the national council--its chief deliberative body--will gather on July 3.

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[] Possibly with the intention of influencing party positions on the next government, the Secretary General of Italy's largest labor union, himself a Communist, has advocated a mild incomes policy in exchange for tax and credit policies favoring employment.

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[] In a sharp break from previous trade union and Communist policy, the labor leader urged that cost-of-living wage adjustments be applied only to earnings below a fixed level. His remarks come as Italy's trade unions are about to resume their triennial wage negotiations. []

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SPAIN

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[] //The head of the Communist-dominated Workers' Commissions says he will defy the government's decision to ban a congress of the Commissions planned for this weekend. Other leaders of the Commissions have reportedly threatened to step up labor pressure on the government.//

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[] The aim of the Communist labor leaders appears to be twofold:

--To embarrass the government as it moves toward a referendum in October that will include proposals for limited reforms.

--To bring increased pressure on the government to legalize the Communist Party by demonstrating that its cooperation is necessary to maintain labor peace.

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25X1 [] The Workers' Commissions are attempting to avoid being isolated in the labor movement by pushing for labor unity. They are negotiating with the two major non-Communist trade unions, the Socialist General Union of Workers and the socialist-oriented Union of Syndical Workers, to form a group that would parallel the Democratic Coordination grouping of opposition political parties.

25X1 [] Negotiations have reportedly bogged down because the two non-Communist unions resent the Workers' Commission's claims to speak for all workers.

25X1 [] //The government appears to be divided on legalizing the Workers' Commissions. Interior Minister Fraga banned the congress because of its ties to the Communist Party and because he feared a strong reaction from rightists and the military if the congress were permitted.//

25X1 [] Syndical Minister Martin Villa, on the other hand, recognizes the Commissions' predominant role in the Spanish labor movement and has recommended that they be allowed to constitute themselves as a legal trade union confederation along with other opposition labor groups under his proposed syndical reform scheme.

25X1 [] Martin Villa justifies the proposal to legalize the Commissions on the grounds that they are not overtly Communist and do include non-Communists. The banning of the congress suggests that he has so far been unable to change the government's approach. []

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PERU

25X1 [] //We are not able to confirm reports that Peru has bought Soviet surface-to-air missiles, some of which have already been delivered. Whether true or not, the reports are likely to start rumors and add to the misgivings already raised among Peru's neighbors by its steady purchase of weapons in recent years.//

25X1 [] //A missile purchase would also have implications for Peru's troubled economic and political situation.//

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[] //Becoming the first South American country to field surface-to-air missiles would contradict President Francisco Morales Bermudez' publicly stated goal of building better relations in the hemisphere and reducing tensions with Chile. His personal position is not totally secure, and he may not believe himself strong enough to turn down groups in the military who want advanced hardware regardless of international opinion.//

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[] //Army and air force strategists who have been modernizing Peru's armed forces want an advanced air defense system both as a status symbol and as a means of enhancing the country's defensive capability. Some Peruvian officers, recognizing that Peru stands out as a major leftist government in South America, believe their government must build a deterrent against rightist neighbors who they suspect are secretly forming an anti-Peruvian alliance.//

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[] //Also significant is sentiment within the Peruvian officer corps for recovering territory lost to the Chileans in the War of the Pacific (1879-1883). These feelings may intensify as the centenary of the war approaches.//

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[] //We do not believe Morales Bermudez and Peru's senior commanders are contemplating a military adventure against Chile, but the continuing buildup in the south has fueled Chilean fears.//

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[] //Santiago's concerns will increase particularly if Peru's purchase, as reported, includes SA-6 missiles. The SA-6 is a mobile air defense system on tracked vehicles, which is notably effective for defense of advancing ground-force units.//

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[] //When rumors of a Peruvian missile purchase reach Santiago, Chilean leaders are likely to raise the specter of increased Soviet influence in Peru and accuse Lima and the Soviets of further fostering a hemispheric arms race. Santiago is sure to put renewed pressure on the US and European countries to sell arms to Chile.//

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[] //Chile can ill afford new purchases and in any case is out of favor with most potential military suppliers. Its most realistic course would be to marshal regional opinion against Peru. This would not be difficult. Most nations of the region would protest, in varying degrees.//

25X1 [] //Resultant ill feelings would probably further damage the halting efforts of Andean leaders, begun in 1974, to launch a regional arms control movement. The latest phase in this movement, a tripartite conference held in late May in Santiago, did not materially improve relations between Peru and Chile.//

25X1 [] //Peru, with a critical economic situation, is hardly in a better position than Chile to undertake an additional multi-million-dollar arms purchase, despite the likelihood that the Soviets would offer generous terms and a long grace period. Even if the near-term economic picture is unaffected, civilian and military financial experts would probably view the purchase as foolhardy and would rightly fear the impact on Peru's efforts to obtain credit in Western financial circles.//

25X1 [] //Morales Bermudez only recently weathered a series of difficulties with a powerful military faction that accused him of tolerating radicals in the government and allowing his seven-month administration to drift toward Marxism.//

25X1 [] //Anti-communist officers, particularly in the navy, continue to scrutinize Morales Bermudez' actions in the light of his promise to keep the revolution on a middle course. Some of them would deplore an influx of Soviet technicians and advisers in conjunction with a missile purchase. [] 25X1

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USSR-MEXICO

25X1 [] Soviet-Mexican civil air negotiators reached a draft bilateral air accord in Moscow in late May.

25X1 [] The agreement provides for reciprocal air service between the two countries. Mexican officials have indicated that the agreement will be formally approved soon, although disagreement in the Mexican government over the accord may delay final implementation.

25X1 [] Aeroflot wants to begin service this summer. Aero-Mexico, however, is not known to have firm plans for flights to Moscow. Aeroflot service would probably be provided by an extension of one or two of its daily flights to Havana.

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[] The existing US-USSR bilateral air agreement would not permit extension to Mexico City of Aeroflot's Moscow - New York or Leningrad-Washington flights.

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[] The Soviets have long sought Aeroflot service to Mexico City, both to improve their access to other Latin American capitals and to extend their commercial and clandestine activities in Mexico. Current Aeroflot operations in Latin America are limited to daily flights to Cuba and a weekly service to Lima. []

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CHINA

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[] China's trade with the seven major industrial countries plus Hong Kong and Singapore--normally about 70 percent of Peking's trade with the non-Communist world--increased sharply in the first quarter of this year as compared with the same period last year. Imports were up 13.8 percent and exports 12.8 percent.

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[] While agricultural imports were lower, industrial imports increased. These include steel, fertilizer, nonferrous metals, industrial machinery, and transport equipment.

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[] China's non-oil exports to the nine markets increased by 38.6 percent over the last quarter of 1975. A high sales volume, not only at the past two Canton trade fairs but also at other, smaller fairs, suggests that there will be a high level of non-oil exports this year, more than offsetting a potential decline in oil exports to Japan.

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[] Oil exports to Japan--China's primary customer--fell from \$250 million in the last quarter of 1975, to less than \$100 million in the first quarter of this year. []

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INDUSTRIAL COUNTRIES

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[] Export prices of seven major industrial countries--Canada, France, Italy, Japan, the UK, the US, and West Germany--rose moderately in the first three months of 1976 after a six-month decline. Prices of consumer goods in dollar terms rose at a 10-percent rate during the quarter; only food prices declined.

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[] The recent increases reflect the end of price cutting that took place during most of last year as well as the persistent inflation within the major economies. We estimate that the continuing upturn in general export prices and the probable end of the decline in export food prices by midyear will force dollar export prices of the "big seven" up between 7 and 10 percent for 1976 as a whole.

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[] Export prices reacted more sharply than domestic prices to business cycle swings in the major economies during the last two years. In early 1975 export prices began to rise less rapidly than they had in 1974. In some cases, they even began to fall in reaction to the downturn in overall demand. Industry tried to reduce inventories, and deflationary expectations further exacerbated the decline in purchases. Many exporters cut prices substantially from the artificially inflated 1974 levels, hoping to maintain overseas sales as a supplement to weak domestic demand.

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[] On average, "big seven" export prices in both national currencies and in dollars showed no change in the second quarter of 1975. In dollar terms, they actually fell at an annual rate of 6.5 percent in the third and fourth quarters; domestic wholesale prices, coming off a lower peak, fell at a 3-percent rate during the period.

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[] Measured in terms of national currencies, "big seven" export prices began to climb again as early as last July and then gathered steam in later quarters. The strengthening of the dollar obscured the rise in domestic currency export prices for two quarters; in the first quarter of this year, however, the rise in national currency prices more than offset dollar appreciation, producing a 3.4-percent rate of increase in dollar prices.

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[] Increases in "big seven" export prices, in domestic currency terms, during the remainder of 1976, will probably track closely with the overall level of domestic inflation in the major countries.

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[] Prices of industrial supplies, capital goods, autos, and consumer goods will probably continue to increase at roughly the pace of the first quarter. Assuming that the strengthening

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of the dollar is now tapering off, the rise in export prices in dollar terms will more closely parallel the rise in domestic currency export prices in the months ahead.

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